



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA  

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Herman A. Bertuleit

CITY OF TAWAS CITY  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2008

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## AUDITORS' REPORT

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Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannon, CPA  
Kyle E. Troyer, CPA

Herman A. Bertaleit

November 19, 2008

Independent Auditors' Report

Members of the City Council  
City of Tawas City  
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Tawas City, Iosco County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements, as listed in the index. These financial statements are the responsibility of the City of Tawas City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Tawas City, Iosco County, Michigan, as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tawas City's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stephenson, Gracik & Co., P.C.*

# CITY OF TAWAS CITY

## CITY HALL

P.O. BOX 568

(989) 362-8688

FAX (989) 362-2521

TAWAS CITY, MICHIGAN

48764-0568

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the City of Tawas City's (the City) financial performance provides an overview of the City's financial activities for the year ended June 30, 2008. The intent of this discussion and analysis is to look at the City's financial performance as a whole. The discussion focuses on the City's primary government and, unless otherwise noted, the component unit reported separately from the primary government is not included.

#### Financial Highlights

- The City's assets exceeded its liabilities by \$11,712,920.
- The City's total net assets increased by \$1,487,341.
- The City's governmental funds reported a combined ending fund balance of \$1,527,014 this year, an increase of \$152,462. Of this amount, \$1,042,484 is available for spending (*unreserved fund balance*) on behalf of its citizens. The City General Fund 2007/2008 fiscal year end *fund balance* is \$1,000,131.

#### Overview of the Financial Statements

The financial statements are organized so the reader can understand the City as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The City's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

#### Government-wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the City as a whole. These statements include the financial activities of the primary government and its component unit except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.



Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

With this report, capital assets are listed for the City of Tawas City. These assets are comprised of buildings and improvements, machinery and equipment, vehicles, infrastructure, and land owned by the City. These assets total over \$10 million.

The City's component unit is comprised of the Tawas City Downtown Development Authority. This component unit is described in the *Notes to the Financial Statements*. The component unit is separate and may buy, sell, lease, and mortgage property in its own name and can sue or be sued in its own name.

The Tawas City Downtown Development Authority displays assets totaling \$87,830.

### **Fund Financial Statements**

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental, Proprietary and Fiduciary*.

#### ***Governmental Funds:***

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

- General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.
- Major Streets Fund – This fund accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes, Federal aid for major street purposes, and general fund appropriations as well as State Trunkline maintenance contracts.
- Local Streets Fund – This fund accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes, Federal aid for local street purposes, and general fund appropriations as well as State Trunkline maintenance contracts.

#### ***Proprietary Funds:***

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the City's major enterprise funds:

- Sewer Fund – This fund accounts for fees collected for sewer services provided by the City and a city-wide property tax levy.
- Water Fund – This fund accounts for fees collected for water services provided by the City and a city-wide property tax levy.

**Fiduciary Funds:** Fiduciary fund reporting focuses on net assets and changes in net assets. The City's agency fund accounts for assets held by the City for political subdivisions in which the City acts as fiscal agent for taxes collected and distributed to other political subdivisions.

### Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the City *government-wide* and *fund* financial statements. The notes to financial statements are presented following the Basic Financial Statements, and provide an expansive and thorough view of various aspects of the audited financial statements.

Tawas City Downtown Development Authority related financial data is included throughout the notes to financial statements.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents combining and individual fund statements and schedules.

### Government -Wide Financial Analysis

#### Summary of Net Assets:

The following summarizes the net assets of the City of Tawas City at June 30, 2008:

#### Net Assets Summary

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Current Assets	\$ 1,578,949	\$ 1,194,125	\$ 2,773,074	\$ 2,464,153
Capital Assets – net	3,770,308	2,447,594	6,217,902	5,360,904
Other Noncurrent Assets	<u>0</u>	<u>4,431,679</u>	<u>4,431,679</u>	<u>4,387,404</u>
<b>Total Assets</b>	<u>5,349,257</u>	<u>8,073,398</u>	<u>13,422,655</u>	<u>12,212,461</u>
Current Liabilities	51,935	41,222	93,157	80,598
Long-Term Liabilities	<u>600,643</u>	<u>1,015,935</u>	<u>1,616,578</u>	<u>1,968,257</u>
<b>Total Liabilities</b>	<u>652,578</u>	<u>1,057,157</u>	<u>1,709,735</u>	<u>2,048,855</u>
<b>Net Assets</b>				
Investment in Capital Assets, Net of Related Debt	3,500,719	2,447,594	5,948,313	5,015,153
Restricted	484,530	0	484,530	185,100
Unrestricted	<u>711,430</u>	<u>4,568,647</u>	<u>5,280,077</u>	<u>4,963,353</u>
<b>Total Net Assets</b>	<u>\$ 4,696,679</u>	<u>\$ 7,016,241</u>	<u>\$ 11,712,920</u>	<u>\$ 10,163,606</u>

## Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2008.

Generally speaking, the City's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The City of Tawas City, through its governing body, i.e., city council, has taken a sensible approach vis-à-vis capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The City council has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the City's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b>Revenues:</b>				
<b>Program Revenues:</b>				
Charges for Services	\$ 224,939	\$ 1,010,969	\$ 1,235,908	\$ 1,219,922
Operating Grants and Contributions	267,999	0	267,999	238,669
Capital Grants and Contributions	<u>288,615</u>	<u>336,000</u>	<u>624,615</u>	<u>240,564</u>
<b>Total Program Revenues</b>	<u>781,553</u>	<u>1,346,969</u>	<u>2,128,522</u>	<u>1,699,155</u>
<b>General Revenues:</b>				
Property Taxes	938,099	254,000	1,192,099	1,178,616
State Revenue Sharing	197,298	0	197,298	200,262
Investment Earnings and Miscellaneous	90,165	38,099	128,264	135,127
Rent Income	97,844	0	97,844	71,744
Gain or Loss on Sale of Capital Assets	0	(13,250)	(13,250)	0
Payments from Component Unit	<u>122,989</u>	<u>0</u>	<u>122,989</u>	<u>58,313</u>
<b>Total General Revenues and Transfers</b>	<u>1,446,395</u>	<u>278,849</u>	<u>1,725,244</u>	<u>1,644,062</u>
<b>Total Revenues</b>	<u>2,227,948</u>	<u>1,625,818</u>	<u>3,853,766</u>	<u>3,343,217</u>
<b>Program Expenses:</b>				
General Government	328,949	0	328,949	256,556
Public Safety	436,343	0	436,343	421,603
Public Works	552,666	0	552,666	546,592
Community and Economic Development	18,785	0	18,785	24,210
Recreation and Cultural	209,009	0	209,009	185,666
Payments to Component Unit	0	0	0	53,400
Interest on Long-Term Debt	21,384	0	21,384	21,770
Water Services	0	367,482	367,482	334,102
Sewer Services	<u>0</u>	<u>431,807</u>	<u>431,807</u>	<u>394,842</u>
<b>Total Program Expenses</b>	<u>1,567,136</u>	<u>799,289</u>	<u>2,366,425</u>	<u>2,286,485</u>
<b>Change in Net Assets</b>	660,812	826,529	1,487,341	1,056,732
<b>Beginning Net Assets, as Restated</b>	<u>4,035,867</u>	<u>6,189,712</u>	<u>10,225,579</u>	<u>9,106,874</u>
<b>Ending Net Assets</b>	<u>\$ 4,696,679</u>	<u>\$ 7,016,241</u>	<u>\$ 11,712,920</u>	<u>\$ 10,163,606</u>

## **Governmental Activities**

The *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$781,553 from *Charges for Services, Operating Grants and Contributions and Capital Grants and Contributions*. The *Charges for Services* are fees for refuse collection, franchises, fire contracts, cemetery sales and openings and penalties. While revenue collected is substantial, operating expenses totaled \$1,567,136 for these same activities. The largest expenses were incurred by General Government offices (\$328,949), Public Safety (\$436,343) and Public Works (\$552,666).

## **Business-Type Activities**

The City of Tawas City's *Business-Type activities* are limited to the Sewer and Water Funds.

## **Financial Analysis of City Funds**

As noted earlier in this report, the City uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

### **Governmental Funds**

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds: 1) General Fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue; 2) Major Streets Fund – accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes, Federal aid for major street purposes, and general fund appropriations as well as State Trunkline maintenance contracts; and 3) Local Streets Fund – accounts for the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes, Federal aid for local street purposes, and general fund appropriations as well as State Trunkline maintenance contracts.

This year's City audit shows 11 funds. These funds are maintained by the City Treasurer as separate units in the General Ledger.

### **Enterprise Funds**

The City's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, the sewer and water departments comprise these funds. GASB 34 places such funds under the caption of *Proprietary Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc.

## **Budgetary Highlights**

The City's budgets are prepared according to Michigan law. The most significant budgeted funds are the General, Major Streets and Local Street Funds.

During the fiscal year ended June 30, 2008, the City amended the budgets of their major governmental funds a couple of times, none significantly.



### General Fund

The General Fund actual revenue was \$1,852,117. That amount is above the original budget estimate of \$1,557,280 and below the final amended budget estimate of \$1,867,939.

The actual expenditures of the General Fund were \$1,815,113, which is above the original budget estimate of \$1,536,480 and below the final amended budget estimate of \$1,878,839. The variance between the actual expenditures, the original budget, and the final budget was due to an increase in capital outlay expenditures compared to original budget, and the final budget was due to an increase in capital outlay expenditures compared to original budget and due to changes in spending.

The General Fund had total revenues of \$1,852,117 and total expenditures of \$1,815,113 with an ending fund balance of \$1,000,131.

### Major Streets Fund

The Major Streets Fund actual revenue was \$182,693. That amount is above the original budget estimate of \$158,760 and final amended budget estimate of \$181,812.

The actual expenditures of the Major Streets Fund were \$129,540, which is below the original budget estimate of \$201,500 and the final amended budget estimate of \$169,100. The variance between actual expenditures, the original budget, and the final budget was due to the City not incurring capital outlay expenditures as originally budgeted for and due to changes in spending in various areas.

The Major Streets Fund had total revenues of \$182,693 and total expenditures of \$129,540 with an ending fund balance of \$136,181.

### Local Streets Fund

The Local Streets Fund actual revenue was \$46,910. That amount is below both the original and final amended budget estimates of \$50,360.

The actual expenditures of the Local Streets Fund were \$75,308, which is below the original budget estimate of \$91,550 and the final amended budget estimate of \$86,550.

The Local Streets Fund had total revenues of \$46,910 and total expenditures of \$75,308 with an ending fund balance of \$29,418.

## **Capital Asset and Debt Administration**

### **Capital Assets**

Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The City's infrastructure consists of roads and water/sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning balance was \$5,702,260 with an ending balance of \$6,297,461. Governmental Activities Total Capital Assets – Net of Depreciation was \$3,770,308.

Capital Assets - Business Type Activities beginning balance was \$3,342,225 with an ending balance of \$3,798,382. Business-Type Activities Total Capital Assets – Net of Depreciation was \$2,447,594. An expanded and detailed presentation may be seen in Note 4 of the audit, notes to financial statements.

### **Long-Term Debt**

At year's end, long-term debt (due in more than one year) amounted to \$1,197,258. Such debt includes *Due to State of Michigan, Notes Payable, Contracts Payable and Bonds Payable, Capital Leases Payable*, as well as *Compensated Absences*. That is, accumulated vested vacation benefits payable and contingent liability for the accumulated sick leave benefits of its employees.

### **Economic Factors and Next Year's Budget and Rates**

The City Council and City staff work together to maintain revenue sources and control expenditures. The main source of revenue is property taxes and is approximately 52% of the City's general fund budget. In 2008-2009 the City will collect more in property taxes due to new businesses and new construction.

Another source of revenue is from the State of Michigan. Each year revenue sharing decreases as the State of Michigan is cutting back. The City uses undesignated fund balances to cover any shortfalls. The City's General Fund realized a 5% increase in fund balance in fiscal year 2007-2008 and these funds will be used to cover any short falls in revenues.

The City obtained a new bond issue in the amount of \$1.8 million in the 2008/2009 fiscal year to be used for the construction of Downtown Redevelopment Project consisting of a Veterans Memorial Park, Board Walks and a City Municipal Building.

The City Council and City staff will continue to monitor revenues and expenditures due to ongoing economic conditions.

### **Component Unit**

Complete financial statements for the Tawas City Downtown Development Authority may be obtained from the City of Tawas City Clerk's office located at 516 Oak Street, Tawas City, Michigan, 48763.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Tawas City Clerk's office located at 516 Oak Street, Tawas City, Michigan, 48763.

CITY OF TAWAS CITY  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
June 30, 2008

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental</u>	<u>Business-Type</u>		<u>Downtown</u>
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Development</u>
				<u>Authority</u>
<u>Assets</u>				
Cash and Cash Equivalents (Note 2)	\$ 1,438,676	\$ 1,080,339	\$ 2,519,015	\$ 17,830
Investments - Real Estate	2,570	0	2,570	0
Receivables:				
Special Assessments	0	4,872	4,872	0
Accounts, Net	18,839	109,486	128,325	0
Due from State	95,834	2,524	98,358	0
Internal Balances	13,976	(13,976)	0	0
Prepaid Expenses	9,054	10,880	19,934	0
Noncurrent Assets:				
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,810,279	1,810,279	0
Investment in Iosco County Waste Water Treatment Plant (Note 12)	0	2,621,400	2,621,400	0
Capital Assets, Net (Note 4)	<u>3,770,308</u>	<u>2,447,594</u>	<u>6,217,902</u>	<u>70,000</u>
Total Assets	<u>5,349,257</u>	<u>8,073,398</u>	<u>13,422,655</u>	<u>87,830</u>
<u>Liabilities</u>				
Accounts Payable	22,176	38,588	60,764	0
Due to Local Units	17,719	0	17,719	0
Accrued Liabilities	12,040	2,634	14,674	0
Long Term Liabilities: (Note 5)				
Due Within One Year	40,567	378,753	419,320	0
Due In More Than One Year	<u>560,076</u>	<u>637,182</u>	<u>1,197,258</u>	<u>0</u>
Total Liabilities	<u>652,578</u>	<u>1,057,157</u>	<u>1,709,735</u>	<u>0</u>
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	3,500,719	2,447,594	5,948,313	70,000
Restricted For:				
Library Activities	22,282	0	22,282	0
Debt Service	272,977	0	272,977	0
Perpetual Care	5,134	0	5,134	0
Cemetery	184,137	0	184,137	0
Unrestricted	<u>711,430</u>	<u>4,568,647</u>	<u>5,280,077</u>	<u>17,830</u>
Total Net Assets	<u>\$ 4,696,679</u>	<u>\$ 7,016,241</u>	<u>\$ 11,712,920</u>	<u>\$ 87,830</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF TAWAS CITY  
Iosco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2008

					Net (Expense) Revenue and Changes in Net Assets			
Function/Program	Expenses	Program Revenues			Primary Government			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
Primary Government								
Governmental Activities:								
General Government:								
Legislative and Executive	\$ 70,305	\$ 0	\$ 0	\$ 0	\$ (70,305)	\$ 0	\$ (70,305)	
Financial and Tax								
Administration	154,350	63,772	0	0	(90,578)	0	(90,578)	
Other General								
Government	104,294	10,700	0	182,664	89,070	0	89,070	
Public Safety:								
Police	250,000	0	0	0	(250,000)	0	(250,000)	
Fire	186,343	89,119	230	5,661	(91,333)	0	(91,333)	
Public Works:								
Solid Waste	60,271	60,488	0	0	217	0	217	
Other Public Works	492,395	0	223,311	100,290	(168,794)	0	(168,794)	
Community and Economic								
Development	18,785	0	0	0	(18,785)	0	(18,785)	
Recreation and Cultural	209,009	860	44,458	0	(163,691)	0	(163,691)	
Interest and Fees on Long-								
Term Debt	21,384	0	0	0	(21,384)	0	(21,384)	
Total Governmental								
Activities	1,567,136	224,939	267,999	288,615	(785,583)	0	(785,583)	
Business-Type Activities:								
Sewer Services	431,807	490,733	0	0	0	58,926	58,926	
Water Services	367,482	520,236	0	336,000	0	488,754	488,754	
Total Business-Type								
Activities	799,289	1,010,969	0	336,000	0	547,680	547,680	
Total Primary Government	\$ 2,366,425	\$ 1,235,908	\$ 267,999	\$ 624,615	(785,583)	547,680	(237,903)	

The accompanying notes to financial statements are an integral part of this statement.

CITY OF TAWAS CITY  
Iosco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2008

					Net (Expense) Revenue and Changes in Net Assets			
Function/Program	Expenses	Program Revenues			Primary Government			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority
<u>Component Unit</u>								
Downtown Development Authority	\$ <u>1,631</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>				\$ <u>(1,631)</u>
General Revenue:								
Property Taxes Levied For:								
General Operating					\$ 938,099	\$ 0	\$ 938,099	0
Sewer Debt Service					0	190,500	190,500	0
Water Debt Service					0	63,500	63,500	0
State Revenue Sharing					197,298	0	197,298	0
Interest and Investment Earnings					59,092	38,099	97,191	2,381
Rent Income					97,844	0	97,844	0
Gain or Loss on Sale of Capital Assets					0	(13,250)	(13,250)	0
Other					31,073	0	31,073	0
Payments from Component Unit					<u>122,989</u>	<u>0</u>	<u>122,989</u>	<u>(122,989)</u>
Total General Revenue					<u>1,446,395</u>	<u>278,849</u>	<u>1,725,244</u>	<u>(120,608)</u>
Change in Net Assets					660,812	826,529	1,487,341	(122,239)
Net Assets - Beginning, as Restated (Note 14)					<u>4,035,867</u>	<u>6,189,712</u>	<u>10,225,579</u>	<u>210,069</u>
Net Assets - Ending					\$ <u>4,696,679</u>	\$ <u>7,016,241</u>	\$ <u>11,712,920</u>	\$ <u>87,830</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF TAWAS CITY  
Iosco County, Michigan

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2008

	<u>Special Revenue Funds</u>			Other	Total
	<u>General Fund</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Governmental Funds</u>	<u>Governmental Funds</u>
<u>ASSETS</u>					
Cash and Cash Equivalents (Note 2)	\$ 929,958	\$ 119,962	\$ 29,538	\$ 359,218	\$ 1,438,676
Investments - Real Estate	0	0	0	2,570	2,570
Receivables:					
Accounts, Net	18,839	0	0	0	18,839
Due from State	62,267	26,093	7,474	0	95,834
Due from Other Funds (Note 3)	29,533	0	0	0	29,533
Prepaid Expenses	<u>9,054</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,054</u>
Total Assets	<u>\$ 1,049,651</u>	<u>\$ 146,055</u>	<u>\$ 37,012</u>	<u>\$ 361,788</u>	<u>\$ 1,594,506</u>
<u>LIABILITIES AND FUND EQUITY</u>					
<u>Liabilities</u>					
Accounts Payable	\$ 21,458	\$ 220	\$ 425	\$ 73	\$ 22,176
Due to Other Funds (Note 3)	0	8,813	6,651	93	15,557
Due to Other Units of Government	17,719	0	0	0	17,719
Accrued Liabilities	<u>10,343</u>	<u>841</u>	<u>518</u>	<u>338</u>	<u>12,040</u>
Total Liabilities	<u>49,520</u>	<u>9,874</u>	<u>7,594</u>	<u>504</u>	<u>67,492</u>
<u>Fund Equity</u>					
Fund Balances:					
Reserved For:					
Library Activities	0	0	0	22,282	22,282
Debt Service	0	0	0	272,977	272,977
Perpetual Care	0	0	0	5,134	5,134
Cemetery	184,137	0	0	0	184,137
Unreserved:					
Designated For:					
Budget Stabilization	506,243	0	0	0	506,243
Undesignated, Reported In:					
General Fund	309,751	0	0	0	309,751
Special Revenue Funds	<u>0</u>	<u>136,181</u>	<u>29,418</u>	<u>60,891</u>	<u>226,490</u>
Total Fund Equity	<u>1,000,131</u>	<u>136,181</u>	<u>29,418</u>	<u>361,284</u>	<u>1,527,014</u>
Total Liabilities and Fund Equity	<u>\$ 1,049,651</u>	<u>\$ 146,055</u>	<u>\$ 37,012</u>	<u>\$ 361,788</u>	<u>\$ 1,594,506</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF TAWAS CITY  
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
June 30, 2008

Total Governmental Fund Balances	\$	1,527,014
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:

Capital Asset Cost	\$ 6,297,461	
Accumulated Depreciation	<u>(2,527,153)</u>	
		3,770,308

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:

Bonds Payable	(84,000)	
Due to State of Michigan	(250,000)	
Notes Payable	(90,002)	
Capital Leases Payable	(95,587)	
Compensated Absences Payable	<u>(81,054)</u>	
Total Long-Term Liabilities		<u>(600,643)</u>

Total Net Assets - Governmental Activities	\$	<u>4,696,679</u>
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The accompanying notes to financial statements are an integral part of this statement.

CITY OF TAWAS CITY  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2008

	<u>Special Revenue Funds</u>			Other	Total
	<u>General Fund</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Governmental Funds</u>	<u>Governmental Funds</u>
<u>Revenue</u>					
Property Taxes	\$ 965,825	\$ 0	\$ 0	\$ 0	\$ 965,825
Federal Grants and Revenue	0	0	0	5,661	5,661
State Grants and Revenue	297,588	177,700	45,611	0	520,899
Contributions from Local Units	0	0	0	66,954	66,954
Charges for Services	271,861	0	0	3,710	275,571
Interest and Rentals	131,648	3,141	1,299	20,848	156,936
Other Revenue	185,195	1,852	0	4,424	191,471
Total Revenue	<u>1,852,117</u>	<u>182,693</u>	<u>46,910</u>	<u>101,597</u>	<u>2,183,317</u>
<u>Expenditures</u>					
Current:					
General Government:					
Legislative	10,053	0	0	0	10,053
Chief Executive	48,864	0	0	0	48,864
Financial and Tax Administration	149,231	0	0	0	149,231
Other General Government	57,322	0	0	0	57,322
Public Safety	353,427	0	0	0	353,427
Public Works	366,138	129,540	75,308	0	570,986
Community and Economic Development	18,785	0	0	0	18,785
Recreation and Cultural	98,003	0	0	42,976	140,979
Other	36,280	0	0	3,595	39,875
Capital Outlay	660,143	0	0	6,633	666,776
Debt Service:					
Principal	12,081	0	0	171,749	183,830
Interest and Fiscal Charges	4,786	0	0	16,598	21,384
Total Expenditures	<u>1,815,113</u>	<u>129,540</u>	<u>75,308</u>	<u>241,551</u>	<u>2,261,512</u>
Excess of Revenue Over (Under)					
Expenditures	<u>37,004</u>	<u>53,153</u>	<u>(28,398)</u>	<u>(139,954)</u>	<u>(78,195)</u>
<u>Other Financing Sources (Uses)</u>					
Capital Lease Proceeds	107,668	0	0	0	107,668
Operating Transfers In	18,223	0	17,000	115,237	150,460
Operating Transfers from Component Unit	12,989	0	0	110,000	122,989
Operating Transfers Out	(132,237)	0	0	(18,223)	(150,460)
Total Other Financing Sources (Uses)	<u>6,643</u>	<u>0</u>	<u>17,000</u>	<u>207,014</u>	<u>230,657</u>
Excess of Revenue and Other Sources					
Over (Under) Expenditures and Other					
Uses	43,647	53,153	(11,398)	67,060	152,462
Fund Balances - Beginning of Year, as					
Restated (Note 14)	<u>956,484</u>	<u>83,028</u>	<u>40,816</u>	<u>294,224</u>	<u>1,374,552</u>
Fund Balances - End of Year	<u>\$ 1,000,131</u>	<u>\$ 136,181</u>	<u>\$ 29,418</u>	<u>\$ 361,284</u>	<u>\$ 1,527,014</u>

The accompanying notes to financial statements are an integral part of this statement.



CITY OF TAWAS CITY  
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2008

Total Net Change in Fund Balances - Governmental Funds		\$	152,462
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			
Capital Outlay	643,801		
Current Year Depreciation Expense	<u>(187,271)</u>		
Net difference			456,530
Debt issued provides current financial resources to governmental funds, but issuing debt increases liabilities in the statement of net assets. Proceeds from debt issued consists of the following:			
Capital Lease Proceeds			(107,668)
Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:			
Bonds Payable	156,000		
Notes Payable	15,749		
Capital Leases Payable	<u>12,081</u>		
Net difference			183,830
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:			
Net Change in Accrued Compensated Absences			<u>(24,342)</u>
Change in Net Assets of Governmental Activities		\$	<u><u>660,812</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF TAWAS CITY  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2008

	Enterprise Funds		
	Major Funds		
	Sewer Fund	Water Fund	Total
<u>Assets</u>			
Current Assets:			
Cash and Cash Equivalents (Note 2)	\$ 375,049	\$ 705,290	\$ 1,080,339
Receivables:			
Special Assessments	4,872	0	4,872
Accounts, Net	53,134	56,352	109,486
Due from State	0	2,524	2,524
Due from Other Funds (Note 3)	174	0	174
Prepaid Expenses	0	10,880	10,880
Total Current Assets	<u>433,229</u>	<u>775,046</u>	<u>1,208,275</u>
Noncurrent Assets:			
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,810,279	1,810,279
Investment in Iosco County Waste Water Treatment Plant (Note 12)	2,621,400	0	2,621,400
Capital Assets, Net (Note 4)	691,660	1,755,934	2,447,594
Total Noncurrent Assets	<u>3,313,060</u>	<u>3,566,213</u>	<u>6,879,273</u>
Total Assets	<u>3,746,289</u>	<u>4,341,259</u>	<u>8,087,548</u>
<u>Liabilities</u>			
Current Liabilities:			
Accounts Payable	1,164	37,424	38,588
Due to Other Funds (Note 3)	7,642	6,508	14,150
Accrued Liabilities	1,120	1,514	2,634
Current Portion of Long-Term Liabilities (Note 5)	243,636	135,117	378,753
Total Current Liabilities	<u>253,562</u>	<u>180,563</u>	<u>434,125</u>
Long-Term Liabilities:			
Due in More Than One Year (Note 5)	<u>240,552</u>	<u>396,630</u>	<u>637,182</u>
Total Liabilities	<u>494,114</u>	<u>577,193</u>	<u>1,071,307</u>
<u>Net Assets</u>			
Invested In Capital Assets, Net of Related Debt	691,660	1,755,934	2,447,594
Unrestricted	<u>2,560,515</u>	<u>2,008,132</u>	<u>4,568,647</u>
Total Net Assets	<u>\$ 3,252,175</u>	<u>\$ 3,764,066</u>	<u>\$ 7,016,241</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF TAWAS CITY  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS  
 PROPRIETARY FUNDS  
For the Year Ended June 30, 2008

	<u>Enterprise Funds</u>		
	<u>Major Funds</u>		
	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
<u>Operating Revenue</u>			
Charges For Services	\$ 482,180	\$ 503,343	\$ 985,523
Penalties	8,454	7,896	16,350
Other Revenue	99	8,997	9,096
Total Operating Revenue	<u>490,733</u>	<u>520,236</u>	<u>1,010,969</u>
<u>Operating Expenses</u>			
Salaries and Wages	53,356	58,438	111,794
Payroll Taxes and Employee Benefits	22,457	24,520	46,977
Administrative Costs	3,474	1,958	5,432
Contractual Services	223,618	161,020	384,638
Depreciation	27,706	38,983	66,689
Equipment Rental	10,219	22,558	32,777
Insurance and Bonds	2,700	3,200	5,900
Operating Supplies	5,885	21,043	26,928
Repair and Maintenance	33,601	923	34,524
Travel and Training	344	2,202	2,546
Utilities	12,966	0	12,966
Other	267	153	420
Total Operating Expenses	<u>396,593</u>	<u>334,998</u>	<u>731,591</u>
Operating Income	<u>94,140</u>	<u>185,238</u>	<u>279,378</u>
<u>Nonoperating Revenue (Expenses)</u>			
Property Taxes	190,500	63,500	254,000
Federal Grants and Revenue	0	336,000	336,000
Interest and Investment Earnings	13,572	24,527	38,099
Gain or Loss on Sale of Capital Assets	(6,625)	(6,625)	(13,250)
Interest and Fees Expense	(35,214)	(32,484)	(67,698)
Total Nonoperating Revenue (Expenses)	<u>162,233</u>	<u>384,918</u>	<u>547,151</u>
Change in Net Assets	256,373	570,156	826,529
Net Assets - Beginning of Year	<u>2,995,802</u>	<u>3,193,910</u>	<u>6,189,712</u>
Net Assets - End of Year	<u>\$ 3,252,175</u>	<u>\$ 3,764,066</u>	<u>\$ 7,016,241</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF TAWAS CITY  
Iosco County, Michigan

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2008

	Enterprise Funds		
	Major Funds		
	Sewer Fund	Water Fund	Total
<u>Cash Flows From Operating Activities</u>			
Receipts From Customers	\$ 490,859	\$ 522,535	\$ 1,013,394
Payments for Operating Expenses	(330,867)	(193,611)	(524,478)
Payments to Employees for Services	(53,080)	(58,095)	(111,175)
Net Cash Provided by Operating Activities	<u>106,912</u>	<u>270,829</u>	<u>377,741</u>
<u>Cash Flows From Non-Capital Financing Activities</u>			
Property Taxes Received	190,500	63,500	254,000
Special Assessments Received	1,344	0	1,344
Cash Received (Paid) to Other funds	1,601	(60)	1,541
Net Cash Provided by Non-Capital Financing Activities	<u>193,445</u>	<u>63,440</u>	<u>256,885</u>
<u>Cash Flows From Capital and Related Financing Activities</u>			
Federal Grants Received	0	333,476	333,476
State Grants Received	0	2,500	2,500
Proceeds from Sale of Capital Assets	7,875	7,875	15,750
Acquisition and Construction of Capital Assets	(40,236)	(464,615)	(504,851)
Principal Paid on Long-Term Debt	(215,880)	(128,254)	(344,134)
Interest and Fees Paid on Long-Term Debt	(35,214)	(32,484)	(67,698)
Net Cash Used by Capital and Related Financing Activities	<u>(283,455)</u>	<u>(281,502)</u>	<u>(564,957)</u>
<u>Cash Flows From Investing Activities</u>			
Interest on Investments	<u>13,572</u>	<u>24,527</u>	<u>38,099</u>
Net Increase in Cash and Cash Equivalents	30,474	77,294	107,768
Cash and Cash Equivalents at Beginning of Year (Note 1)	<u>344,575</u>	<u>627,996</u>	<u>972,571</u>
Cash and Cash Equivalents at End of Year (Note 1)	<u>\$ 375,049</u>	<u>\$ 705,290</u>	<u>\$ 1,080,339</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>			
Operating Income	\$ 94,140	\$ 185,238	\$ 279,378
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	27,706	38,983	66,689
Noncash Expense Included in Operating Supplies	0	8,694	8,694
Change in Assets and Liabilities:			
Accounts Receivable	126	2,299	2,425
Prepaid Expenses	0	(223)	(223)
Accounts Payable	(15,336)	35,495	20,159
Accrued Liabilities	<u>276</u>	<u>343</u>	<u>619</u>
Net Cash Provided by Operating Activities	<u>\$ 106,912</u>	<u>\$ 270,829</u>	<u>\$ 377,741</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF TAWAS CITY  
Iosco County, Michigan

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2008

Supplemental Disclosures:

Noncash Capital and Related Financing Activities

The Water Fund recorded noncash activity in the form of an increase in contracts payable and investment in Huron Shore Regional Utility Authority of \$44,275. This was the result of an increase in the City of Tawas City's actual water usage percentage in the current year's joint venture membership gallon usage calculation.

The Water Fund recorded noncash activity in the form of a decrease in the prior year construction in progress - capital assets of \$8,694. This was the result of the City using the items for operations in the current year instead of adding them to its water system.

The accompanying notes to financial statements are an integral part of this statement.

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Tawas City (City) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of City Operations and Fund Types

The City of Tawas City was organized in 1885 and covers an area of approximately 1 1/4 square miles. The City operates under an elected City Council (seven members) and provides services to its more than 2,000 residents in many areas, including fire protection, water and sewer services, and maintenance of major and local streets. All activities over which the City exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity. On this basis, the financial statements of certain other governmental organizations listed below are not included in the financial statements of the City. Education services are provided to citizens through the local school district which is a separate governmental entity and is not part of this report.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the City are not misleading. The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs of services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes.

1. Blended Component Unit

Governmental Activity and Fund Type Blended Component Unit

**City of Tawas City Building Authority** - The City of Tawas City Building Authority is legally separate from the City. The Building Authority is reported as if it were part of the primary government because its sole purpose is to finance, construct and maintain buildings, parking facilities and recreation facilities for use for any legitimate public purpose of the City.

The accompanying notes to financial statements are an integral part of this statement.

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

2. Discretely Presented Component Unit

The component unit column on the combined financial statements include the financial data of the City's component unit. It is reported in a separate column to emphasize that it is legally separate from the City.

Governmental Activity and Fund Type Component Unit:

**Downtown Development Authority** - The governing body of this component unit is appointed by the City Council. The Authority was established to eliminate the causes of property value deterioration and promote economic growth in the business district of the City of Tawas City. Complete financial statements for the Tawas City Downtown Development Authority can be obtained from the City of Tawas City Clerk's office located at 516 Oak Street, Tawas City, Michigan, 48763.

C. Joint Ventures

The City has entered into several joint ventures with various municipalities described as follows:

Tawas Police Authority

The Tawas Police Authority functions as a joint venture between the City of Tawas City and the City of East Tawas. The Authority was established to provide police protection to the constituent municipalities, the City of Tawas City and the City of East Tawas, and other municipalities by contract. Each municipality makes contributions based on their share of the adopted annual budget. The City of Tawas City's contribution for the year ended June 30, 2008 was \$250,000. Complete financial statements can be obtained from the City of Tawas City Clerk's office, located at 516 Oak Street, Tawas City, Michigan, 48763.

Tawas Utility Authority

The Tawas Utility Authority was established as a joint venture between the City of Tawas City and the City of East Tawas. The Authority was established for the construction and operation of sewage treatment facilities to service both municipalities. Each municipality makes monthly operation and maintenance payments based on their share of the adopted annual budget. The City of Tawas City's cost for the year ended June 30, 2008 was \$201,900. Complete financial statements can be obtained from the City of East Tawas City Manager's office.

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Joint Ventures (Continued)

Huron Shore Regional Utility Authority

The Huron Shore Regional Utility Authority was established as a joint venture between the City of Tawas City, City of East Tawas, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The initial contract amount plus any adjustment for the City of Tawas City's share of the contract is recorded as Investment in Huron Shore Regional Utility Authority in the Water Fund of the City because title to the water and sewer systems belongs to the Authority.

The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the City's share is 20.46% of the total bond issue of \$7,930,000 or \$1,622,478. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the City of Tawas City is making payments through ad-valorem taxes and charges for services.

In 1995, the city entered into a joint water and sewer system agreement for the purpose of constructing additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority Water and Sewer System No. 1, with the Charter Townships of Oscoda and AuSable and the Township of Baldwin. The most current estimate of the City's share is 24.66% of the total bond issue of \$1,300,000 or \$320,580. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the City of Tawas City is making payments through ad-valorem taxes and charges for services. Each municipality makes an annual operation and maintenance contribution based on their proportionate share of the adopted annual budget. The City of Tawas City's contribution for the year ended June 30, 2008 was \$145,643. The current value of the City of Tawas City's investment in the Huron Shore Regional Utility Authority is \$1,810,279. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

D. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.



CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Presentation (Continued)

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

**Fund Financial Statements**

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

E. Fund Accounting

The City uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain City functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and proprietary.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Major Street Fund - This fund is used to account for the maintenance and construction of the City's major street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for major street and highway purposes.

Local Street Fund - This fund is used to account for the maintenance and construction of the City's local street system, including the receipt and expenditure of State motor fuel taxes which are earmarked by law (Act 51 PA 1951, as amended) for local street and highway purposes.

The other governmental funds of the City account for grants and other resources whose use is restricted for a particular purpose; the accumulation of resources for, and the payment of debt; and the acquisition or construction of major capital facilities.

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Fund Accounting (Continued)

**Proprietary Funds**

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The City's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund - This fund accounts for fees collected for sewer services provided by the City and a city-wide property tax levy.

Water Fund - This fund accounts for fees collected for water services provided by the City and a city-wide property tax levy.

F. Measurement Focus

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its enterprise activities.

G. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and proprietary funds financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Basis of Accounting (Continued)

**Revenues – Exchange and Non-exchange Transactions**

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, sales taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from sales taxes is recognized in the period in which the sales are made. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: sales taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), grants, interest, and rent.

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

H. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Receivables

Receivables generally consist of accounts (fees) and special assessments. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The balances consist primarily of charges for sewer and water services due from various customers.

The allowance for doubtful accounts at June 30, 2008 was \$0 for the primary government and the component unit.

J. Interfund Receivables and Payables

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "due from/to other funds". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances".

K. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

L. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The City's infrastructure consists of roads, bridges, dams, and water and sewer lines. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Estimated Lives</u>
Buildings	40 years
Building Improvements	7 - 40 years
Land Improvements	20 years
Water and Sewer Lines	50 years
Dams	30 - 50 years
Construction Equipment	5 - 10 years
Vehicles	5 - 15 years
Office Equipment	5 years
Computer Equipment	5 years
Firefighting Equipment	10 years
Grounds Equipment	15 years
Infrastructure - Roads	40 years

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

N. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation and sick leave benefits are accrued as a liability using the vesting method. An accrual for earned vacation and sick leave is made based on accumulated vacation and sick leave and the employee wage rates at year end taking into consideration limits specified in the City's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements. On the governmental fund financial statements, the current portion of unpaid compensated absences is recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts, if any, are recorded in the account "Accrued Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported in the governmental fund financial statements. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. Governmental Fund Balance Reserves

The City reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for future cemetery improvements, debt service, library and perpetual care expenditures.

Q. Governmental Fund Balance Designations

Designations of portions of the fund balance are established to indicate tentative plans for financial resource utilization in a future period. Fund balance designations have been established for future budget stabilization expenses.

R. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the City, these revenues are charges for services for water and sewer usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

S. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2008.

U. Budgets and Budgetary Accounting

The City of Tawas City normally follows these procedures in establishing the budgetary data reflected in the financial statements.

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Budgets and Budgetary Accounting (Continued)

1. Prior to June 1, the City Clerk submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. This operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted at the governmental center to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance .
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the City Council throughout the operating year.

The City adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the City are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level.

The legal level of control is at the activity level for the General Fund, and at fund expenditure totals for the Special Revenue Funds.

Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the City Council. The financial statements include budgetary amounts as amended.

V. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>	<u>Component Unit</u>
Cash and Cash Equivalents	\$ <u>1,438,676</u>	\$ <u>1,080,339</u>	\$ <u>2,519,015</u>	\$ <u>17,830</u>

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Bank Deposits (Checking and Savings Accounts)	\$ 500,686	\$ 0
Investments in Financial Institution Pooled Funds	2,018,179	17,830
Petty Cash and Cash on Hand	<u>150</u>	<u>0</u>
Total	<u>\$ 2,519,015</u>	<u>\$ 17,830</u>

As of June 30, 2008, the City had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Primary Government: Investment Pools	\$ <u>2,018,179</u>	Daily

Interest Rate Risk

In accordance with its investment policy, the City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's known cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local government unit in Michigan. The City's investment pools are unrated.

Custodial Credit Risk - Deposits - Primary Government

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2008, \$354,734 of the City's bank balance of \$511,334 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.



CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Investments (Continued)

The City will minimize custodial credit risk, by; limiting investments to the types of securities approved in the City's investment policy which is in accordance with State law.

Foreign Currency Risk

The City's investment policy does not address foreign currency risk.

Investments

The City Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the City to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- λ Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- λ United States government or federal agency obligation repurchase agreements
- λ Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The City's deposits and investments are in accordance with statutory authority.

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables as of June 30, 2008 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 29,533	\$ 0
Major Streets	0	8,813
Local Streets	0	6,651
Total Major Governmental Funds	<u>29,533</u>	<u>15,464</u>
Non-major Governmental Funds	<u>0</u>	<u>93</u>
Major Enterprise Funds:		
Sewer Fund	174	7,642
Water Fund	0	6,508
Total Major Enterprise Funds	<u>174</u>	<u>14,150</u>
	<u>\$ 29,707</u>	<u>\$ 29,707</u>

The amounts of interfund receivables and payables for individual funds as of June 30, 2008 were as follows:

<u>Fund</u> <u>Primary Government</u>	<u>Interfund Receivable</u>	<u>Fund</u> <u>Primary Government</u>	<u>Interfund Payable</u>
General Fund	\$ 93	Cemetery Perpetual Care Fund	\$ 93
General Fund	8,813	Major Streets	8,813
General Fund	6,651	Local Streets	6,651
General Fund	7,642	Sewer Fund	7,642
General Fund	6,334	Water Fund	6,334
Sewer Fund	<u>174</u>	Water Fund	<u>174</u>
Total	<u>\$ 29,707</u>	Total	<u>\$ 29,707</u>

These balances result from the time lag between the dates that interfund goods and services are provided, transactions are recorded in the accounting system, and payments between funds are made.

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended June 30, 2008, was as follows:

	Balance 07/01/07	Additions	Deletions	Balance 06/30/08
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,314,877	\$ 264,726	\$ 0	\$ 1,579,603
Construction in Progress	10,581	84,742	0	95,323
Subtotal	<u>1,325,458</u>	<u>349,468</u>	<u>0</u>	<u>1,674,926</u>
Capital Assets Being Depreciated:				
Land Improvements	905,923	0	0	905,923
Buildings and Improvements	1,530,754	158,699	0	1,689,453
Machinery and Equipment	417,624	121,652	(54,000)	485,276
Vehicles	1,079,382	19,382	0	1,098,764
Infrastructure - Roads	443,119	0	0	443,119
Subtotal	<u>4,376,802</u>	<u>299,733</u>	<u>(54,000)</u>	<u>4,622,535</u>
Less Accumulated Depreciation for:				
Land Improvements	(628,724)	(45,296)	0	(674,020)
Buildings and Improvements	(757,747)	(33,623)	0	(791,370)
Machinery and Equipment	(317,043)	(29,905)	48,600	(298,348)
Vehicles	(659,475)	(67,369)	0	(726,844)
Infrastructure - Roads	(25,493)	(11,078)	0	(36,571)
Subtotal	<u>(2,388,482)</u>	<u>(187,271)</u>	<u>48,600</u>	<u>(2,527,153)</u>
Capital Assets Being Depreciated	<u>1,988,320</u>	<u>112,462</u>	<u>(5,400)</u>	<u>2,095,382</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 3,313,778</u>	<u>\$ 461,930</u>	<u>\$ (5,400)</u>	<u>\$ 3,770,308</u>
<u>Business-Type Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 79,700	\$ 0	\$ 0	\$ 79,700
Construction in Progress	56,392	0	(40,352)	16,040
Subtotal	<u>136,092</u>	<u>0</u>	<u>(40,352)</u>	<u>95,740</u>
Capital Assets Being Depreciated:				
Buildings	176,878	31,108	0	207,986
Machinery and Equipment	3,029,255	505,401	(40,000)	3,494,656
Subtotal	<u>3,206,133</u>	<u>536,509</u>	<u>(40,000)</u>	<u>3,702,642</u>

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 4 - CAPITAL ASSETS (CONTINUED)

	Balance 07/01/07	Additions	Deletions	Balance 06/30/08
<u>Business-Type Activities (Continued)</u>				
Less Accumulated Depreciation for:				
Buildings	\$ (170,875)	\$ (2,795)	\$ 0	\$ (173,670)
Machinery and Equipment	(1,124,224)	(63,894)	11,000	(1,177,118)
Subtotal	<u>(1,295,099)</u>	<u>(66,689)</u>	<u>11,000</u>	<u>(1,350,788)</u>
Capital Assets Being Depreciated	<u>1,911,034</u>	<u>469,820</u>	<u>(29,000)</u>	<u>2,351,854</u>
Business-Type Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 2,047,126</u>	<u>\$ 469,820</u>	<u>\$ (69,352)</u>	<u>\$ 2,447,594</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities

General Government:	
Other General Government	\$ 2,465
Public Safety:	
Fire	68,981
Public Works:	
Other Public Works	47,491
Recreation and Cultural	<u>68,334</u>
Total Governmental Activities	<u>\$ 187,271</u>

Business-Type Activities

Sewer	\$ 27,706
Water	<u>38,983</u>
Total Business-Type Activities	<u>\$ 66,689</u>

Capital asset activity of the Downtown Development Authority for the current year is as follows:

	Balance 07/01/07	Additions	Deletions	Balance 06/30/08
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	<u>\$ 70,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 70,000</u>

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 5 - LONG-TERM LIABILITIES

Primary Government:

A. Bonds Payable

\$175,000 General Obligation Building Authority Bond, dated October 21, 1981 used for the purpose of the construction of a fire hall. The bonds bear interest at 5% and are due in annual installments through 2020.

<u>Governmental</u>	<u>Business-Type</u>
\$ <u>84,000</u>	\$ <u>0</u>

B. Due to State of Michigan

\$250,000 loan from the Michigan Department of Commerce which was passed on to the Iosco County Board of Public Works for the construction of a new waste water treatment system. Program income is to be remitted to the State of Michigan with payback commencing upon notification from the State of Michigan. The amount is to be amortized over 20 years with a balloon payment in one year. Terms are renegotiable at 10 years, however the loan is interest free. As of June 30, 2008, the State of Michigan has not notified the City for commencement of repayment.

<u>Governmental</u>	<u>Business-Type</u>
<u>250,000</u>	<u>0</u>

C. Notes Payable

\$222,350 note payable to Huron Community Bank for the purchase of a Pierce Sabre Fire Truck. The note is repayable in monthly installments of \$1,682 through June 5, 2013 including interest at the rate of 4.5% on the unpaid balance.

<u>Governmental</u>	<u>Business-Type</u>
<u>90,002</u>	<u>0</u>

D. Contracts Payable

Joint waste water treatment plant with the City of East Tawas through the Iosco County Board of Public Works to refund a portion of the Iosco County Sewer System #3 general obligation bonds dated December 1, 1987, due in annual installments through November 1, 2009, bearing interest at the rates of 4.5% to 5.9%. The most current estimate of the City's share is 61.68% of the total refunding bond issue of \$4,250,000 or \$2,621,400.

<u>Governmental</u>	<u>Business-Type</u>
0	484,188

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Primary Government: (Continued)

D. Contracts Payable (Continued)

	<u>Governmental</u>	<u>Business-Type</u>
Joint water supply system agreement with the City of East Tawas, the Charter Townships of AuSable and Oscoda, and the Township of Baldwin through the Huron Shore Regional Utility Authority, dated May 1, 1996, due in annual installments through November 1, 2010, bearing interest at the rates of 4% to 5.65% to finance the cost of constructing a new water supply system. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the City's share is 20.46% of the total bond issue of \$7,930,000 or \$1,622,478.	\$ 0	\$ 346,797
Joint water supply system agreement with the Charter Townships of AuSable and Oscoda, and the Township of Baldwin to finance the cost of constructing additions, extensions, improvements and related appurtenances to Sewer System No. 1 of the Huron Shores Regional Utility Authority, dated November 1, 1995, due in annual installments through May 1, 2015, bearing interest at the rates of 4.4% to 5.625%. The construction was originally funded with the proceeds of the Limited Tax General Obligation Bonds dated November 5, 1995. The most current estimate of the City's share is 24.66% of the total bond issue of \$1,300,000 or \$320,580.	<u>0</u>	<u>184,950</u>
Total Contracts Payable	<u>0</u>	<u>1,015,935</u>

E. Capital Leases

	<u>Governmental</u>	<u>Business-Type</u>
On August 20, 2007, the City entered into a lease purchase agreement with Caterpillar Financial Services Corporation in the amount of \$107,668 for the purchase of a Caterpillar Backhoe Loader. The equipment has been recorded as a fixed asset at its purchase price. Amortization of the leased asset is included in depreciation expense. This capital lease is repayable in 60 monthly installments of \$1,533 including interest at the rate of 5.6% on the unpaid balance and a balloon payment of \$36,080 at the end of the lease.	<u>95,587</u>	<u>0</u>
Total Primary Government	<u>\$ 519,589</u>	<u>\$ 1,015,935</u>

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

F. Compensated Absences Payable

The City has an accrued liability for accumulated vested vacation and sick leave benefits of its employees. As of June 30, 2008, the accumulated vested vacation and sick leave benefits of the employees of various City departments and its component unit were as follows:

	Current Liability 06/30/08	Long-Term Liability 06/30/08	Total Balance 06/30/08
<u>Accrued Employee Benefits Payable</u>			
<u>Primary Government</u>			
Governmental Activities	\$ 4,766	\$ 76,288	\$ 81,054

G. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2008:

	Balance 07/01/07	Issues or Additions	Payments or Expenditures	Balance 06/30/08	Due Within One Year
<u>Governmental Activities</u>					
Primary Government:					
Bonds Payable	\$ 240,000	\$ 0	\$ (156,000)	\$ 84,000	\$ 6,000
Due to State of Michigan	250,000	0	0	250,000	0
Notes Payable	105,751	0	(15,749)	90,002	16,471
Capital Leases Payable	0	107,668	(12,081)	95,587	13,330
Compensated Absences	56,712	24,342 *	0	81,054	4,766
Total Primary Government	\$ 652,463	\$ 132,010	\$ (183,830)	\$ 600,643	\$ 40,567
<u>Business-Type Activities</u>					
Primary Government:					
Contracts Payable	\$ 1,315,794	\$ 0	\$ (299,859)	\$ 1,015,935	\$ 378,753

\*Represents net of additions and retirements for the year.

The interest expenditures on long-term obligations for the year were \$89,082.

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

**NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)**

The annual aggregate maturities for all debt outstanding (excluding due to the State of Michigan and compensated absences) as of June 30, 2008 are as follows:

Primary Government

<b>Bonds Payable</b>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2009	\$ 6,000	\$ 4,050	\$ 0	\$ 0	\$ 10,050
2010	7,000	3,725	0	0	10,725
2011	7,000	3,375	0	0	10,375
2012	7,000	3,025	0	0	10,025
2013	7,000	2,675	0	0	9,675
2014 - 2018	35,000	8,125	0	0	43,125
2019 - 2020	<u>15,000</u>	<u>775</u>	<u>0</u>	<u>0</u>	<u>15,775</u>
Total	<u>\$ 84,000</u>	<u>\$ 25,750</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 109,750</u>

<b>Notes Payable</b>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2009	\$ 16,471	\$ 3,713	\$ 0	\$ 0	\$ 20,184
2010	17,228	2,956	0	0	20,184
2011	18,019	2,165	0	0	20,184
2012	18,847	1,337	0	0	20,184
2013	<u>19,437</u>	<u>471</u>	<u>0</u>	<u>0</u>	<u>19,908</u>
Total	<u>\$ 90,002</u>	<u>\$ 10,642</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 100,644</u>

<b>Contracts Payable</b>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2009	\$ 0	\$ 0	\$ 378,753	\$ 47,821	\$ 426,574
2010	0	0	380,811	26,134	406,945
2011	0	0	139,236	11,213	150,449
2012	0	0	24,660	6,589	31,249
2013	0	0	30,825	5,202	36,027
2014 - 2015	<u>0</u>	<u>0</u>	<u>61,650</u>	<u>5,202</u>	<u>66,852</u>
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,015,935</u>	<u>\$ 102,161</u>	<u>\$ 1,118,096</u>



CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Capital Leases Payable	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2009	\$ 13,330	\$ 5,070	\$ 0	\$ 0	\$ 18,400
2010	14,105	4,295	0	0	18,400
2011	14,924	3,476	0	0	18,400
2012	15,792	2,608	0	0	18,400
2013	<u>37,436</u>	<u>177</u>	<u>0</u>	<u>0</u>	<u>37,613</u>
Total	<u>\$ 95,587</u>	<u>\$ 15,626</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 111,213</u>

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the City. Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on August 31 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the City was \$63,493,645. The 2007 operating tax rates are currently 14.7216 mills for operations and 4 mills for debt retirement.

NOTE 7 - NON-CANCELABLE OPERATING LEASE

The Tawas City Fire Department leases facilities from the Tawas City Building Authority under a standard lease agreement. Rental expense for the year ended June 30, 2008 was \$10,350.

Minimum future rental payments under noncancelable leases for years after June 30, 2008 are as follows:

2009	\$ 10,050
2010	10,725
2011	10,375
2012	10,025
2013	9,675
2014 - 2018	43,125
2019 - 2020	<u>15,775</u>
	<u>\$ 109,750</u>

NOTE 8 - OPERATING TRANSFERS

During the year ended June 30, 2008, the following transfers were made:

Description	Operating Transfers In	Operating Transfers Out
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 31,212	\$ 132,237
Local Street Fund	<u>17,000</u>	<u>0</u>
Total Major Funds	48,212	132,237

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 8 - OPERATING TRANSFERS (CONTINUED)

Non-major Governmental Funds	225,237	18,223
Component Unit:		
Downtown Development Authority	<u>0</u>	<u>122,989</u>
	<u>\$ 273,449</u>	<u>\$ 273,449</u>

During the year ended June 30, 2008, the following individual fund transfers were made:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
General Fund	\$ 18,069	Building Authority	\$ 18,069
General Fund	154	Cemetery Perpetual Care	154
Local Streets	17,000	General Fund	17,000
Equipment Fund	30,600	General Fund	30,600
Wal-Mart Debt Service Bond Fund	<u>84,637</u>	General Fund	<u>84,637</u>
Total Primary Government	150,460		150,460
		Component Unit:	
		Downtown Development Authority	12,989
General Fund	12,989	Downtown Development Authority	<u>110,000</u>
Building Authority	<u>110,000</u>		
Total	<u>\$ 273,449</u>	Total	<u>\$ 273,449</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted at the line item level.

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 9 - EXCESS OF EXPENDITURES OVER APPROPRIATION IN BUDGETARY FUNDS (CONTINUED)

During the year ended June 30, 2008, the City incurred expenditures which were in excess of the amounts appropriated as follows:

<u>Fund/Activity</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund/Capital Outlay	\$ 580,733	\$ 660,143	\$ 79,410

NOTE 10 - RETIREMENT PLAN

The City has a defined contribution pension plan covering substantially all its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is operated through the Farmers New World Life Insurance Company.

As established by the City Council, the City is required to contribute an amount equal to 13% of the earnings of salaried personnel and 8.5% of all other employee's gross earnings.

During the year, the City's required and actual contributions amounted to \$41,954.

No pension provision changes occurred during the year that affected the required contributions to be made by the City or its employees.

NOTE 11 - DEFERRED COMPENSATION PLAN

The City offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC) Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the City for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City's financial statements.

NOTE 12 - INVESTMENT IN IOSCO COUNTY WASTEWATER TREATMENT PLANT

The City entered into a joint waste water treatment plant contract with the City of East Tawas through the Iosco County Board of Public Works to refund a portion of the Iosco County Sewer System #3 general obligation bonds dated December 1, 1987. The most current estimate of the City's share is 61.68% of the total funding bond issue of \$4,250,000 or \$2,621,400. The initial contract amount is recorded as investment in Iosco County Waste Water Treatment Plant in the Sewer Fund of the City because the assets of the joint waste water treatment plant are the property of Iosco County and therefore are not presented in these financial statements.

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries and natural disasters, as well as medical benefits provided to employees. The City has purchased commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 14 - PRIOR PERIOD ADJUSTMENTS

During 2008, the following prior period adjustment was made to the financials:

CITY OF TAWAS CITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 14 - PRIOR PERIOD ADJUSTMENTS (CONTINUED)

In the governmental activities section of the financial statements it was determined that state shared revenue had not been accrued at year end in accordance with the state guidelines, and therefore was understated.

In the general fund statements the same prior period adjustment as indicated for the governmental activities applies.

The restatements affected by the prior period adjustments is summarized below:

	<u>General Fund</u>
<b>Fund Balance 6/30/07</b>	\$ 894,511
Adjustment to State Shared Revenue	61,973
<b>Fund Balance 6/30/07, as Restated</b>	<u>\$ 956,484</u>
	<u>Statement of Net Assets</u>
	<u>Governmental Activities</u>
<b>Net Assets 6/30/07</b>	\$ 3,973,894
Adjustment to State Shared Revenue	61,973
<b>Net Assets 6/30/07, as Restated</b>	<u>\$ 4,035,867</u>

NOTE 15 - COMMITMENTS

**Construction contracts**

Subsequent to June 30, 2008, the City entered into the following construction contract:

<u>Project</u>	<u>Total Contract</u>	<u>Contract Payable at June 30, 2008</u>
City Hall Building, New Parking, Memorial & Boardwalk Development	\$ <u>1,113,713</u>	\$ <u>0</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TAWAS CITY  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Property Taxes	\$ 962,000	\$ 965,830	\$ 965,825	\$ (5)
State Grants and Revenue	199,775	300,075	297,588	(2,487)
Charges for Services	282,405	288,133	271,861	(16,272)
Interest and Rentals	113,000	128,301	131,648	3,347
Other Revenue	100	185,600	185,195	(405)
Total Revenue	<u>1,557,280</u>	<u>1,867,939</u>	<u>1,852,117</u>	<u>(15,822)</u>
<u>Expenditures</u>				
Current:				
General Government:				
Legislative	11,850	11,850	10,053	1,797
Chief Executive	48,800	49,940	48,864	1,076
Financial and Tax Administration	144,825	156,429	149,231	7,198
Other General Government	85,550	72,320	57,322	14,998
Public Safety	380,950	380,950	353,427	27,523
Public Works	439,900	416,745	366,138	50,607
Community and Economic Development	31,400	32,800	18,785	14,015
Recreation and Cultural	119,005	119,005	98,003	21,002
Other	37,600	41,200	36,280	4,920
Capital Outlay	236,600	580,733	660,143	(79,410)
Debt Service:				
Principal	0	12,081	12,081	0
Interest and Fiscal Charges	0	4,786	4,786	0
Total Expenditures	<u>1,536,480</u>	<u>1,878,839</u>	<u>1,815,113</u>	<u>63,726</u>
Excess of Revenue Over (Under) Expenditures	<u>20,800</u>	<u>(10,900)</u>	<u>37,004</u>	<u>47,904</u>
<u>Other Financing Sources (Uses)</u>				
Capital Lease Proceeds	0	0	107,668	107,668
Operating Transfers In	0	18,260	18,223	(37)
Operating Transfers from Component Unit	0	13,000	12,989	(11)
Operating Transfers Out	(170,800)	(132,300)	(132,237)	63
Total Other Financing Sources (Uses)	<u>(170,800)</u>	<u>(101,040)</u>	<u>6,643</u>	<u>107,683</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	(150,000)	(111,940)	43,647	155,587
Fund Balances - Beginning of Year, as Restated	<u>956,484</u>	<u>956,484</u>	<u>956,484</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 806,484</u>	<u>\$ 844,544</u>	<u>\$ 1,000,131</u>	<u>\$ 155,587</u>

CITY OF TAWAS CITY  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 MAJOR STREETS - SPECIAL REVENUE FUND  
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
State Grants and Revenue	\$ 156,260	\$ 176,762	\$ 177,700	\$ 938
Interest and Rentals	1,000	3,150	3,141	(9)
Other Revenue	<u>1,500</u>	<u>1,900</u>	<u>1,852</u>	<u>(48)</u>
Total Revenue	<u>158,760</u>	<u>181,812</u>	<u>182,693</u>	<u>881</u>
<u>Expenditures</u>				
Current:				
Public Works	151,500	169,100	129,540	39,560
Capital Outlay	<u>50,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>201,500</u>	<u>169,100</u>	<u>129,540</u>	<u>39,560</u>
Excess of Revenue Over (Under) Expenditures	<u>(42,740)</u>	<u>12,712</u>	<u>53,153</u>	<u>40,441</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	50,000	0	0	0
Operating Transfers Out	<u>(5,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>45,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Revenue and Other Sources Over Expenditures and Other Uses	2,260	12,712	53,153	40,441
Fund Balances - Beginning of Year	<u>83,028</u>	<u>83,028</u>	<u>83,028</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 85,288</u>	<u>\$ 95,740</u>	<u>\$ 136,181</u>	<u>\$ 40,441</u>

CITY OF TAWAS CITY  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 LOCAL STREETS - SPECIAL REVENUE FUND  
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
State Grants and Revenue	\$ 48,860	\$ 48,860	\$ 45,611	\$ (3,249)
Interest and Rentals	<u>1,500</u>	<u>1,500</u>	<u>1,299</u>	<u>(201)</u>
Total Revenue	50,360	50,360	46,910	(3,450)
<u>Expenditures</u>				
Current:				
Public Works	<u>91,550</u>	<u>86,550</u>	<u>75,308</u>	<u>11,242</u>
Excess of Revenue Over (Under) Expenditures	(41,190)	(36,190)	(28,398)	7,792
<u>Other Financing Sources</u>				
Operating Transfers In	<u>22,000</u>	<u>17,000</u>	<u>17,000</u>	<u>0</u>
Excess of Revenue and Other Sources Over (Under) Expenditures	(19,190)	(19,190)	(11,398)	7,792
Fund Balances - Beginning of Year	<u>40,816</u>	<u>40,816</u>	<u>40,816</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 21,626</u>	<u>\$ 21,626</u>	<u>\$ 29,418</u>	<u>\$ 7,792</u>



CITY OF TAWAS CITY  
Iosco County, Michigan

COMBINING BALANCE SHEET  
OTHER GOVERNMENTAL FUNDS  
June 30, 2008

	<u>Special Revenue Funds</u>			<u>Permanent Fund</u>	<u>Debt Retirement Funds</u>		<u>Total Other Governmental Funds</u>
	<u>Equipment Fund</u>	<u>Library Fund</u>	<u>Building Authority</u>	<u>Cemetery Perpetual Care</u>	<u>Building Authority Debt Service Fund</u>	<u>Wal-Mart Debt Service Bond Fund</u>	
<b><u>ASSETS</u></b>							
Cash and Cash Equivalents	\$ 60,891	\$ 22,693	\$ 0	\$ 2,657	\$ 11	\$ 272,966	\$ 359,218
Investments - Real Estate	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,570</u>	<u>0</u>	<u>0</u>	<u>2,570</u>
Total Assets	<u>\$ 60,891</u>	<u>\$ 22,693</u>	<u>\$ 0</u>	<u>\$ 5,227</u>	<u>\$ 11</u>	<u>\$ 272,966</u>	<u>\$ 361,788</u>
<b><u>LIABILITIES AND FUND EQUITY</u></b>							
<b><u>Liabilities</u></b>							
Accounts Payable	\$ 0	\$ 73	\$ 0	\$ 0	\$ 0	\$ 0	\$ 73
Due to Other Funds	0	0	0	93	0	0	93
Accrued Liabilities	<u>0</u>	<u>338</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>338</u>
Total Liabilities	<u>0</u>	<u>411</u>	<u>0</u>	<u>93</u>	<u>0</u>	<u>0</u>	<u>504</u>
<b><u>Fund Equity</u></b>							
Fund Balances:							
Reserved For:							
Library Activities	0	22,282	0	0	0	0	22,282
Debt Service	0	0	0	0	11	272,966	272,977
Perpetual Care	0	0	0	5,134	0	0	5,134
Unreserved:							
Undesignated, Reported In:							
Special Revenue Funds	<u>60,891</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>60,891</u>
Total Fund Equity	<u>60,891</u>	<u>22,282</u>	<u>0</u>	<u>5,134</u>	<u>11</u>	<u>272,966</u>	<u>361,284</u>
Total Liabilities and Fund Equity	<u>\$ 60,891</u>	<u>\$ 22,693</u>	<u>\$ 0</u>	<u>\$ 5,227</u>	<u>\$ 11</u>	<u>\$ 272,966</u>	<u>\$ 361,788</u>

CITY OF TAWAS CITY  
Iosco County, Michigan

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
OTHER GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2008

	<u>Special Revenue Funds</u>			<u>Permanent Fund</u>	<u>Debt Retirement Funds</u>		<u>Total Other Governmental Funds</u>
	<u>Equipment Fund</u>	<u>Library Fund</u>	<u>Building Authority</u>	<u>Cemetery Perpetual Care</u>	<u>Building Authority Debt Service Fund</u>	<u>Wal-Mart Debt Service Bond Fund</u>	
<u>Revenue</u>							
Federal Grants and Revenue	\$ 5,661	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 5,661
Contributions from Local Units	0	44,458	0	0	0	22,496	66,954
Charges for Services	3,710	0	0	0	0	0	3,710
Interest and Rentals	1,336	441	2,430	93	10,350	6,198	20,848
Other Revenue	4,324	0	0	100	0	0	4,424
Total Revenue	<u>15,031</u>	<u>44,899</u>	<u>2,430</u>	<u>193</u>	<u>10,350</u>	<u>28,694</u>	<u>101,597</u>
<u>Expenditures</u>							
Current:							
Recreation and Cultural	0	42,976	0	0	0	0	42,976
Other	3,595	0	0	0	0	0	3,595
Capital Outlay	6,633	0	0	0	0	0	6,633
Debt Service:							
Principal	15,749	0	150,000	0	6,000	0	171,749
Interest and Fiscal Charges	4,435	0	7,813	0	4,350	0	16,598
Total Expenditures	<u>30,412</u>	<u>42,976</u>	<u>157,813</u>	<u>0</u>	<u>10,350</u>	<u>0</u>	<u>241,551</u>
Excess of Revenue Over (Under) Expenditures	<u>(15,381)</u>	<u>1,923</u>	<u>(155,383)</u>	<u>193</u>	<u>0</u>	<u>28,694</u>	<u>(139,954)</u>
<u>Other Financing Sources (Uses)</u>							
Operating Transfers In	30,600	0	0	0	0	84,637	115,237
Operating Transfers from Component Unit	0	0	110,000	0	0	0	110,000
Operating Transfers Out	0	0	(18,069)	(154)	0	0	(18,223)
Total Other Financing Sources (Uses)	<u>30,600</u>	<u>0</u>	<u>91,931</u>	<u>(154)</u>	<u>0</u>	<u>84,637</u>	<u>207,014</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	15,219	1,923	(63,452)	39	0	113,331	67,060
Fund Balances - Beginning of Year	<u>45,672</u>	<u>20,359</u>	<u>63,452</u>	<u>5,095</u>	<u>11</u>	<u>159,635</u>	<u>294,224</u>
Fund Balances - End of Year	<u>\$ 60,891</u>	<u>\$ 22,282</u>	<u>\$ 0</u>	<u>\$ 5,134</u>	<u>\$ 11</u>	<u>\$ 272,966</u>	<u>\$ 361,284</u>



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James F. Gracik, CPA  
Donald W. Braman, CPA  
Kyle E. Troyer, CPA

Herman A. Bertalott

November 19, 2008

Management and Members of the City Council  
City of Tawas City  
Iosco County, Michigan

We have conducted the audit of the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Tawas City as of and for the year ended June 30, 2008 and have issued our report dated November 19, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the City during the audit and met with management on November 19, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the City Council and the Michigan Department of Treasury and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

*Stephenson, Gracik & Co., P.C.*

## **Appendix 1**

### **Communication to Those Charged with Governance**

#### **Responsibilities Under Generally Accepted Auditing Standards**

As stated in our engagement letter dated March 16, 2007, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you or management of your responsibilities.

#### **Planned Scope and Timing of the Audit**

We performed the audit as outlined in our engagement letter related to planning matters dated March 16, 2007.

#### **Significant Audit Findings**

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the City during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.

The most sensitive estimate was management's estimate of the City's investment in the Huron Shore Regional Utility Authority and the related contracts payable to the Authority is based on the City's annual water usage compared to the total usage of the Authority as a whole. The investment value and bond debt liability fluctuates annually based on the above percentage calculation of annual water usage. We evaluated the key factors and assumptions used to develop the investment and the related contracts payable liability in determining that it is reasonable in relation to the financial statements taken as a whole.

- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

#### **Difficulties Encountered During the Audit**

We encountered no difficulties during the audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management. A summary of unadjusted audit differences was provided to management on November 19, 2008.

## **Appendix 1**

### **Communication to Those Charged with Governance**

#### **Disagreements with Management**

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

#### **Management's Consultations with Other Accountants**

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

#### **Significant Issues Discussed or Subject to Correspondence with Management**

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

## **Appendix II**

### **Management Comments**

In planning and performing our audit of the financial statements of City of Tawas City as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered City of Tawas City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Tawas City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Tawas City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified the following deficiencies in internal control that we consider to be material weaknesses.

#### **FINANCIAL STATEMENT PREPARATION CONTROLS**

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of City of Tawas City's financial statements. However, if at any point in the audit we as auditors are part of the City's control system for producing reliable financial statements, auditing standards indicate that the City has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

#### **SEGREGATION OF DUTIES IN THE PERFORMANCE OF FUNCTIONS**

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Although the size of the City's staff prohibits complete adherence to this concept, we believe that implementing the following practice could greatly improve existing internal control without impairing efficiency. We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks and without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts. In addition, we recommend the City Clerk review bank reconciliations on a monthly basis and indicate this review with initials or signature. We also recommend that inter bank transfers be approved by someone other than the employee that performed the transfer.

## Appendix II Management Comments

These individuals should indicate their involvement by initialing a document detailing the amount, date and reason for the transfer.

View of Responsible Officials:

### FINANCIAL STATEMENT PREPARATION CONTROLS

The City of Tawas City has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the City to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

### SEGREGATION OF DUTIES

The City of Tawas City has determined that the cost of implementing all of the recommendations outweigh the benefits to the City. However, the City Clerk will implement the review of bank reconciliations, bank statements and inter bank transfers effective immediately.

The City of Tawas City's responses to the findings in our audit are described above. We did not audit the City's responses and, accordingly, we express no opinion on them.

### STATUS OF PRIOR YEAR COMMENTS:

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Separation of Duties in the Performance of Functions				X
Financial Statement Preparation				X
Budget Control	X			
Bank Accounts	X			
Operating Transfer Out	X			